

## BUSINESS OPERATIONS REVIEW

### MALAYSIAN TAKAFUL REVIEW

In 2014, the Malaysian Family Takaful industry recorded a marginal contraction of 0.7% in total Net Contributions to RM4.8 billion (2013: RM4.8 billion, +5.0%), whilst the General Takaful business registered a 5.6% increase in total Earned Contributions to RM1.5 billion (2013: RM1.4 billion, +8.4%).

During the year under review, MAA Takaful outpaced the industry to record a 42.4% increase in Family Gross Earned Contributions to RM367.6 million (2013: RM258.2 million) and a 32.9% increase in General Gross Earned Contributions to RM286.8 million (2013: RM215.8 million).

Nevertheless, the Family Takaful Fund of MAA Takaful recorded a Loss Before Taxation ("LBT") of RM11.3 million (2013: NIL). The LBT arose due to an increase in net takaful benefits and claims payments particularly from medical and health products which in turn led to the termination of re-takaful treaty support thereby necessitating higher reserving. Under the applicable Malaysian Financial Reporting Standards, losses in the takaful risk fund will be taken up and recognised as such by the takaful operators at the company level. Nevertheless, there was a surplus transfer of RM11.0 million (2013: RM7.3 million) from the investment-linked takaful risk fund to the Shareholder's Fund during the financial year.

The General Takaful Fund of MAA Takaful recorded a LBT of RM0.6 million (2013: PBT of RM1.6 million). The LBT was affected mainly by higher wakalah fee expenses and impairment allowances for insurance receivables, despite an improvement in the net takaful benefits and claims ratio to 51.9% (2013: 60.7%).

The Shareholders' Fund of MAA Takaful recorded a lower PBT of RM8.2 million (2013: RM13.0 million), after taking into account the surplus transfer of RM11.0 million (2013: RM7.3 million) from the Family Takaful Fund and no transfers (2013: RM1.6 million) from General Takaful Fund. The lower profit was due mainly to higher management and commission expenses.

MAA Takaful expects the operating environment in the Takaful Sector to remain positive, although faced with challenges brought about by regulatory changes alluded to and the mandatory sharing of losses incurred by the Malaysian Motor Insurance Pool although the effective implementation date of this arrangement is yet to be announced.

As part of its strategic response to the unfolding events, MAA Takaful will intensify its efforts to improve internal processes on underwriting, product pricing, credit and cost controls, roll out new innovative products, expand its customer base, maintain a quality and productive agency, establish new branches and diversify distribution channels.

### INTERNATIONAL INSURANCE REVIEW

MAA International Assurance Ltd ("MAAIA"), the Labuan based offshore insurance and investment arm of the Group, recorded a LBT of RM12.9 million, (2013 LBT: RM8.2 million). The LBT was due mainly to an impairment allowance of RM13.0 million made in respect of advances extended to PT MAAG to support the company's business run-off expenses. With the general and life reinsurance businesses fully commuted with the sale of MAA Assurance in 2011 coupled with the last investment-linked bond fund maturing during the year, MAAIA will remain mainly as the investment arm of the Group moving forward.

PT MAAG recorded a PBT of RM17.0 million in 2014 (2013: LBT RM28.1 million), contributed mainly by an income of RM16.5 million arising from the waiver of claims liabilities from haircut negotiations. In 2013, the loss resulted from business run-off effects with the total cessation of underwriting activities, premium refunds for cancelled policies, impairment losses for insurance receivables and provisions for staff retrenchment expenses. The negotiations for claims haircut and commutations with reinsurers are still in progress.

During the year, the General Insurance Business in Philippines contributed positively to the results of the Group with a contributory PBT of RM2.1 million (2013: RM0.5 million). The higher profit was due mainly to the 7.8% increase in gross premiums to RM83.4 million (2013: RM77.2 million) and lower net claims incurred which resulted in a release of claims reserves.

### AUSTRALIAN MORTGAGE FINANCING REVIEW

The Group's 49% associate company in Australia, Columbus Capital Pty Ltd ("CCAU") which is in the business of retail mortgage lending and loan securitisation, recorded a lower PBT share of RM0.3 million (2013: RM1.2 million) during the year. The reduced profit is attributable in the main to lower operating revenue arising from the reduction in loan portfolios as repayments exceeded originations and increased operating expenses mainly for staff and IT related expenses, resulting from the insourcing of credit and collection operations. Nevertheless CCAU recorded an improved gross interest margin of 10.8% compared to 8.4% in 2013.

Moving forward, CCAU will continue to manage its existing mortgage portfolios actively with a view to further improve interest margins and simultaneously enhance its origination capacity to grow its business.

On the proposed subscription of additional equity interest in CCAU under the Group's PN17 regularisation plan that will effectively increase the Group's equity interest in CCAU from 47.95% to 55%, the Group is currently critically assessing the long-term sustainable profit generating capability of the company before taking the next steps.